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Dear Jonathan

BCMR 2019: Low bandwidth wholesale TI business connectivity services

As Ofcom thinks about its position in the next Business Connectivity Market Review I thought it might be helpful to set out BT's plans for the provision of legacy TDM data services (including wholesale TI services - i.e. PPCs and RBS) over the period of the next review.

As you know, legacy TDM data services are in long term decline. Volumes are falling rapidly as customers migrate to modern alternatives like broadband and Ethernet, but we cannot reduce our costs as quickly. As the underlying platform ages, it also becomes more and more difficult to maintain the network, source spares and meet service targets. It is clear to us that there will come a time when it is no longer sustainable to continue to provide these services.

We believe a pragmatic regulatory approach in this area is needed. We are committed to continue to protect our customers, and support migration to other services. Our aim is to ensure that they have enough information on future availability, reliability and pricing to enable long term planning. I have set out below BT's plans on each of these areas in turn.

Availability

We are committed to continuing to supply these services throughout the period of this review. To this end, we notified PPC customers in November 2015 that would continue to support 2Mbit/s and above TI services until March 2021 subject to sufficient demand.

We are in the process of reviewing our platform plans but do not expect to continue to support TDM data services beyond 2025. This is because the underlying SDH platform which supports TDM data services also supports PSTN and legacy broadband services and:

- a) legacy broadband services are in the process of being withdrawn and
- b) we intend to migrate all voice services off the PSTN to an IP based platform by the end of 2025¹

¹ Openreach is currently consulting industry on its approach to withdrawing the underlying access products

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As with previous product withdrawals to enable customers to plan their migration to other services we will provide sufficient (at least three years) notice of withdrawal. We will also look to stop new supply of services at least two years before the closure date.

We will of course keep an active dialogue with our customers and once we have finalised our closure plans we will develop a communications programme to ensure they are aware of what is happening and when. This will include Supplier Information Notes, statements on BT.com, contractual notification as well direct engagement with major customers.

Service Delivery and Reliability

Expertise to maintain the TDM network is increasingly scarce both within BT and from our vendors. We are currently continuing to sustain the network by recovering and repairing cards and sourcing spare kit on the grey market. However, we expect this to become increasingly difficult as the failure rate on kit starts to increase with age. This makes our current service targets more challenging to meet.

Nonetheless, our customers can be reassured that we will continue to support the platform on a reasonable endeavours basis in order to meet the service delivery and quality requirements (including SLAs and SLGs) as set out in our PPC contracts.

Pricing

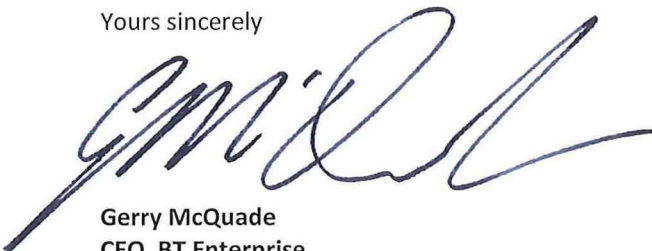
In the years leading up to 2025, sharp reduction in volumes of Voice and Broadband services using the TDM network will mean that the costs for providing PPCs and retail private circuits will rise. Even though we expect private circuit volumes to fall significantly during this period, we cannot reduce costs as quickly because much of our equipment can only be switched off once the last circuit is removed.

We do not want our customers to experience price shocks, but need the flexibility to manage the transition to alternatives and the recovery of legacy network costs. So our future pricing will need to reflect our expectation that costs will increase as volumes decline and allow for annual price increases to encourage consumers to migrate to modern alternatives.

In this context, in the absence of regulation it would not be in BT's interests to raise prices excessively. In such an environment, we would not expect to increase prices by more than CPI+8% per annum to reflect increasing costs. This is not a statement of a plan to increase prices but an assurance to you regarding the bounds of future changes. This would be in line with Ofcom's approach to the Retail Very Low Bandwidth market in the last BCMR. We believe this represents a good balance between protecting customers from price shocks, creating the right incentives for customers to migrate and allowing us to reflect increases in cost.

I trust this is helpful to Ofcom in forming its views on the Low Bandwidth TI market in the next BCMR. We would of course be happy to meet with your team to keep you informed of progress and to make sure you are comfortable with the overall withdrawal process.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Gerry McQuade', is written over a large, faint watermark of the same signature.

Gerry McQuade
CEO, BT Enterprise